CLEVELAND PUBLIC LIBRARY
BUSINESS INFORMATION BUREAU
CORPORATION FILE

# Annual Report

# SAFEWAY STORES

INCORPORATED

YEAR ENDED DECEMBER 31

1945

BOARDS
q658.7414
Sa17r

# What Happened to Safeway's 1945 Sales Dollar?

| | |
|---|---|
| 100 00/100 ¢ | The Dollar Taken in by Safeway |
| 80 88/100 ¢ | Paid Out to Farmers and other Suppliers of Goods |
| 10 73/100 ¢ | Paid Out in Salaries, Wages and Bonuses |
| 5 74/100 ¢ | Paid Out for Operating Supplies and Other Expenses |
| 1 19/100 ¢ | Paid Out for All Local, State and Federal Taxes |
| 77/100 ¢ | Profit for Stockholders and Surplus |
| 61/100 ¢ | Set Aside to Cover Depreciation |
| 8/100 ¢ | Paid Out as Compensation to Elected Officers |

# Annual Report of President to Stockholders

THE REPORT of the operations of your company and its subsidiaries for the year 1945, including Consolidated Balance Sheet, and Statements of Profit and Loss and Surplus, is submitted herewith.

The separate Balance Sheet of Cortland Equipment Lessors, Incorporated, a wholly owned subsidiary, is forwarded to you with this report. The interest of your company in this subsidiary has been treated as an investment in the Consolidated Balance Sheet.

## Sales and Profits

The net sales of your company during 1945 were $664,771,549.03. This was an increase of $8,200,043.77 or 1.25% as compared with 1944.

The consolidated net income of your company for the year 1945, after provision for adequate depreciation, interest and other charges shown in the Statement of Profit and Loss, and United States and Canadian taxes on income, amounted to $5,082,514.19 as compared with $5,202,598.25 in 1944. Provision has been made for United States and Canadian taxes on income for the year 1945 in the amount of $3,336,315.04. Regular dividends of $1,039,615.00 were paid on the preferred stock during the year.

After providing for United States and Canadian Income and Excess Profits Taxes and regular preferred dividends, the earnings of the company applicable to Common Stock were $4,042,899.19 or at the rate of $1.59 per share on 2,540,652 shares, the average number of shares of Common Stock outstanding during the year. Dividend requirements on the average amount of preferred stock outstanding during the year were earned 4.89 times. The operations of the Canadian subsidiaries have been included in the Statement of Profit and Loss on the basis of the applicable controlled exchange rates in effect during the year (90.09 cents U. S. to the Canadian dollar for the period from January 1, 1945 to September 30, 1945 and 90.498 for the period from September 30, 1945 to December 31, 1945).

**SALES...AVERAGE NUMBER OF STORES (and Meat Sections) IN OPERATION...1936-1945**

| *Year* | *Sales* | *Grocery Stores* | *Meat Sections Located in Grocery Stores* |
|---|---|---|---|
| 1936 | $346,178,061 | 3,370 | 2,490 |
| 1937 | 381,868,220 | 3,327 | 2,670 |
| 1938 | 368,254,991 | 3,227 | 2,710 |
| 1939 | 385,882,083 | 2,967 | 2,643 |
| 1940 | 399,322,122 | 2,671 | 2,508 |
| 1941 | 475,124,885 | 2,660 | 2,472 |
| 1942 | 611,139,477 | 2,697 | 2,493 |
| 1943 | 588,833,620 | 2,493 | 2,418 |
| 1944 | 656,571,505 | 2,463 | 2,402 |
| 1945 | 664,771,549 | 2,452 | 2,386 |

# Safeway's 1945 Record—in Brief

| | |
|---|---|
| Net Sales—United States and Canada | $664,771,549 |
| Cost of Sales—Paid out to Farmers and other Suppliers of Goods | $537,655,864 |
| Net Total of Operating and Administrative Expenses, Provision for Depreciation, Other Income, Other Charges, Provision for Taxes on Income | $122,033,171 |
| Net Profit | $5,082,514 |
| Dividends to Preferred Stockholders | $1,039,615 |
| Dividends per share to Preferred Stockholders | $5.00 |
| Net Profit applicable to Common Stock | $4,042,899 |
| Net Profit applicable to Common Stock, per share | $1.59 |
| Dividends to Common Stockholders | $2,540,652 |
| Dividends per share to Common Stockholders (after giving effect to three-for-one stock split-up) | $1.00 |

---

| | |
|---|---|
| Number of new stores opened during 1945 | 23 |
| Number of stores closed during the year | 44 |
| Number of stores in operation at end of year | 2,442 |

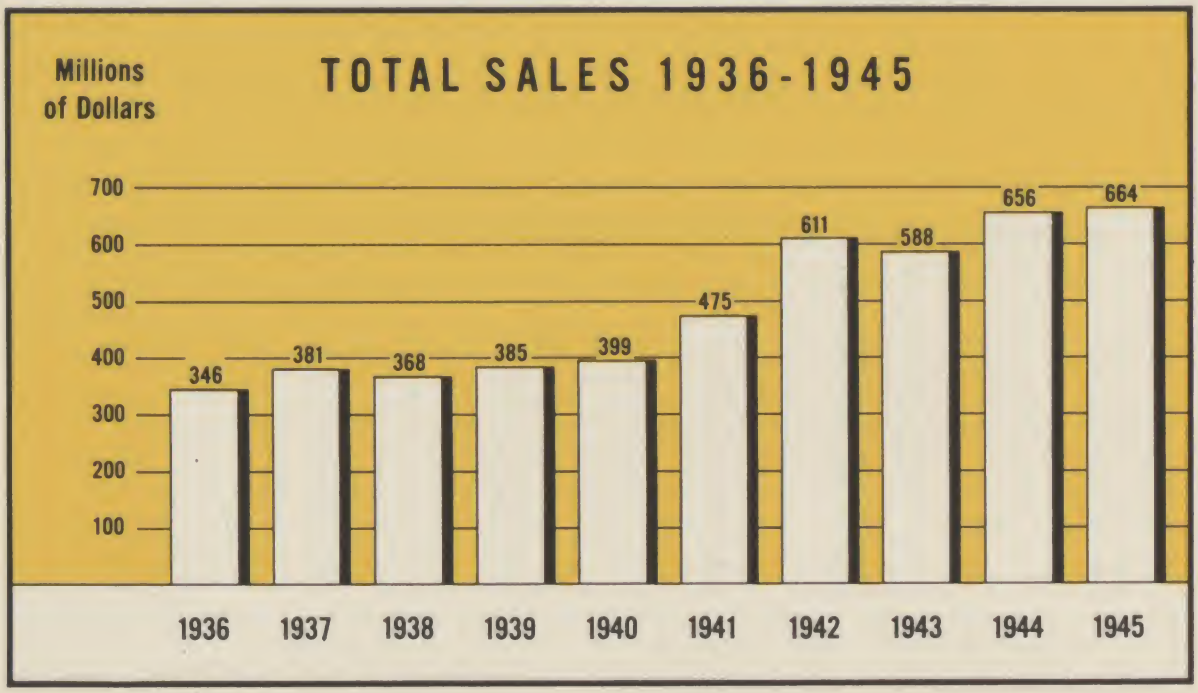
A chart giving a comparison of the total sales per year during the last ten years is set out below for your information.

## Financial Position

The total net assets of your company and its consolidated subsidiaries as of December 31, 1945, according to the attached Consolidated Balance Sheet was $63,604,684.83. On the same date the total current assets of the company and its consolidated subsidiaries amounted to $91,530,773.03, while total liabilities, including term bank loans, amounted to $53,686,672.19, or an excess of current assets over all liabilities of $37,844,100.84. The ratio of current assets to current liabilities as reflected by the Consolidated Balance Sheet was 2.72 to 1. The current and working assets and current liabilities of the subsidiaries in Canada are included in the Consolidated Balance Sheet at 90.498 cents United States to the Canadian dollar (the official controlled rate of exchange); fixed assets are included at the rates prevailing when such assets were acquired or constructed.

With 1946 your company enters upon its twenty-first consecutive year of common and preferred stock dividend payments. Dividends at the rates provided for have been paid on all preferred stock issues and reasonable dividends have been paid on the common stock without interruption since the incorporation of your company.

The capital and surplus of your company, the book values per share of the preferred and common stocks and the dividends and earnings per share of the common stock for the past ten years are presented on page 6. The book value of the common stock is computed without deducting the premium of $10.00 per share to which the preferred stock is entitled upon voluntary or involuntary liquidation. The number of shares outstanding at the end of each year is used in determining book values, and the average number of shares outstanding during the year in computing earnings.



# Summary of 1945 Activities

## Changes in Financing

IN COMPLIANCE with the Charter amendments approved by the stockholders at the annual meeting in April, 1945, the authorized capital of your company was increased to 5,000,000 shares, the par value of the Common Stock was changed from no par to $5.00 par value and the Common Stock was split three for one. During the year the Directors increased the capital represented by the issued shares of Common Stock to $5.00 per share by transferring $2,849,335.75 from the Paid-in Surplus Account of the corporation to the capital represented by shares of Common Stock.

On November 16, 1945 your company completed arrangements with certain of its commercial banks for loans totaling $20,000,000. The loans entered into provide for an interest rate of 2¼% per annum and are payable as follows: $1,000,000 on December 31 in each of the years 1951 to 1954, inclusive, with the balance payable December 31, 1955. The loans may be prepaid at any time without penalty or premium except where the prepayment is made from other borrowings (this does not include public sales of notes, debentures, bonds or other obligations) when a graduated penalty is payable on the amount prepaid.

The sum of $14,733,152.78 from the proceeds of these loans was used to retire your company's outstanding 3¼% debentures and the sum of $2,602,166.67 from the proceeds of these loans was used to prepay the principal and interest on its outstanding term bank loans. The balance of the proceeds in the amount of $2,664,680.55 was added to the working capital of the company. In addition to the interest savings involved, the financing was advisable in order to permit the retirement of the debentures while it was still possible to obtain the benefit of the excess profits tax on the debenture pre-payment premium.

As the premium on retirement and the balance of the unamortized expense of the $14,000,000 3¼% Debenture Issue are deductible for income tax purposes, there resulted a reduction of $586,134.79 in the 1945 provision for Federal taxes on income. A special charge of $586,134.79 has, therefore, been made to the Profit and Loss Account in the year 1945 and credited to these deferred charges. The balance of these charges, consisting of debt discount, premium and expenses, are being amortized over the lives of the refunding issues.

**CAPITAL AND SURPLUS...BOOK VALUE, DIVIDENDS AND EARNINGS PER SHARE...1936-1945**

| | *Capital and Surplus* | *Net Assets Per Share of Preferred Stock* | *Book Value Per Share of Common Stock** | *Dividends Paid Per Share on Common Stock** | *Net Earnings Per Share on Common Stock** |
|---|---|---|---|---|---|
| 1936 | $46,759,491 | $301 | $13.06 | $1.17** | $1.34 |
| 1937 | 47,334,239 | 298 | 13.16 | .83** | .87 |
| 1938 | 48,407,475 | 314 | 13.84 | .67 | 1.34 |
| 1939 | 51,075,334 | 308 | 14.26 | 1.50** | 2.20 |
| 1940 | 53,286,166 | 287 | 14.38 | 1.17 | 1.59 |
| 1941 | 60,007,566 | 270 | 14.87 | 1.17 | 1.64 |
| 1942 | 60,154,048 | 280 | 15.23 | 1.00 | 1.35 |
| 1943 | 61,453,200 | 288 | 15.78 | 1.00 | 1.56 |
| 1944 | 62,564,498 | 299 | 16.40 | 1.00 | 1.63 |
| 1945 | 63,604,685 | 311 | 16.97 | 1.00 | 1.59 |

*Number of shares for each year adjusted to reflect 3-for-1 stock split-up effected April 12, 1945.
**Paid in part in five percent preferred stock.

ENTRANCE to a standard Safeway store is shown above. Spacious parking lot for customers' convenience extends to the right.

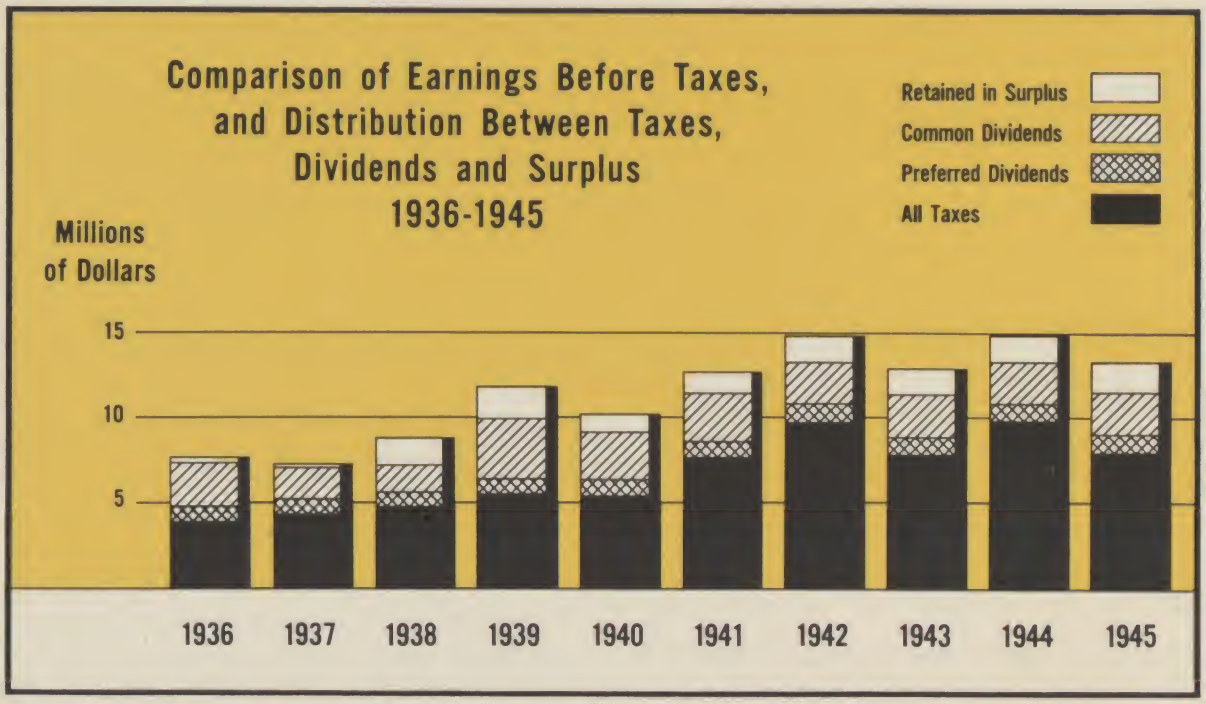
NOT ALL Safeway stores are of "standard" design. Many (as exemplified below) are planned to fit local architectural requirements.

TYPICAL INTERIOR scenes of a standard Safeway store, taken shortly prior to formal opening. Visible below are: entrance turnstile, shopping buggies, produce section, meat case—and above: dairy cooler box, island center fixtures and wall shelving for display of merchandise, doorway to back room, and in foreground the check stands where customers complete their purchases. All stores are operated under a cash and carry plan as part of the basic program of reducing the cost of food distribution.

## Fixture Purchase Program

In the report for the year ended December 31, 1944, the management reported that it was giving consideration to plans which it hoped would make it possible for your company to acquire equipment and fixtures on a self-amortizing basis without a large capital expenditure. This plan has now been placed in effect. As of the close of business on December 31, 1945 your company and its domestic subsidiaries transferred all capitalized furniture, fixtures and equipment, including motor vehicles, to Cortland Equipment Lessors, Incorporated, a wholly owned subsidiary of your company. Arrangements have been made whereby it will be possible for Cortland Equipment Lessors, Incorporated to obtain the funds required to finance its equipment and fixture purchases through loans at reasonable rates of interest from commercial banks. The term of the loans obtained will be related to the depreciable life of the equipment and fixtures. The equipment and fixtures now owned by this subsidiary, as well as those acquired by it in the future, will be leased to your company and under an assignment of the lease a sufficient amount to meet the amortization and interest payments on the

loans of Cortland Equipment Lessors, Incorporated will be retained from the rentals by the lending banks. The operations of this subsidiary will be entirely different from those carried on by other subsidiaries and the management has therefore decided to treat your company's interest in Cortland Equipment Lessors, Incorporated as an investment for accounting purposes. The assets and liabilities of the new subsidiary have been omitted from the Consolidated Balance Sheet and financial reports included in this Annual Report and it is planned to follow this same



practice in the future. Separate statements of Cortland Equipment Lessors, Incorporated, are, however, enclosed with this report for your information. The management believes that this new procedure will greatly facilitate and assist in the purchase of needed fixtures and equipment and that it will permit it to acquire such fixtures and equipment without a serious drain upon the capital of your company.

# Operations

## *Meat*

THE MEAT slaughter plants acquired and operated by your company on December 31, 1944 were listed in the Annual Report for the year ending on that date. In addition to the plants so listed, your company acquired during 1945 slaughter plants at Dallas, Texas; Eau Claire, Wisconsin; Hutchinson, Kansas; and Los Angeles, California. Acquisition of these slaughter plants was necessary in order to keep the meat sections in the retail stores in operation and to partially offset the substantial diversion of meat by other suppliers from regular retail channels. Because of the low ceiling prices fixed by the Office of Price Administration for sales of meat to large chain stores, many outside slaughterers and meat packers diverted meat from such stores

to outlets which were permitted to pay them a higher ceiling price. Additional discriminatory regulations governing the pricing of livestock have made it necessary for your company through its Livestock Buying Company Division to purchase and feed many of the animals required for its slaughter plants in order to maintain an adequate supply of the high grades desired for the retail meat sections in your company's stores.

## *Butter and Cheese*

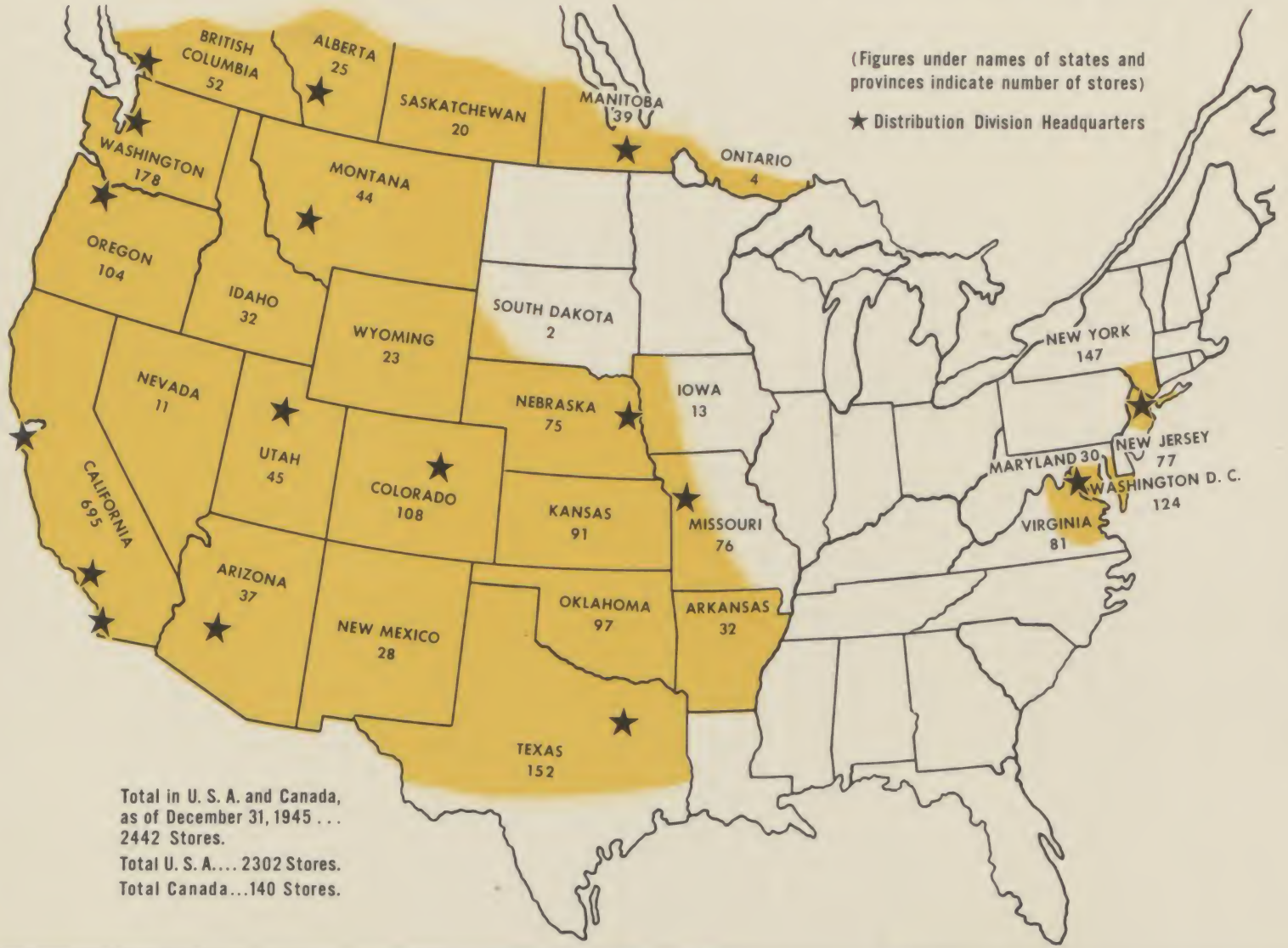
To offset the serious and continuing maldistribution of the available civilian supply of butter and cheese, your company, during 1945, acquired a number of butter churning and cheese manufacturing plants in the States of Wisconsin, Oregon and Colorado. These plants have delivered their total production of butter and cheese available for civilians to the retail stores of your company, and have substantially contributed to assuring your company and its customers a proper pro rata share of the available supply of these commodities.

## *Supply and Service Departments*

The procurement, supply and service departments which were set up as free standing divisions of your company during recent years had an opportunity under wartime conditions to demonstrate the valuable services which they can render to your company. These activities were of great assistance to your company in meeting the difficulties and hardships placed upon its business by the war. Without them it would have been extremely difficult for your company to have made the necessary adjustments in its operations to permit it to continue its vital service of supplying food to the civilian population. These operations should continue to be of great value to your company.

Easwest Produce Company, which is responsible for the procurement of fresh fruits and vegetables for your company's retail stores is a good example of a free standing supplier operation. The representatives of Eas-

## « Safeway Stores in the United States and Canada »



west check farming operations in their territory from the time plowing is started until the crop is harvested. Because of their experience and close contact with the growers they are in a position to obtain quality fruits and vegetables for shipment to your company's produce warehouses. It is the policy of Easwest to purchase only for Safeway stores, to pay prevailing market prices and to refrain from sharp practices.

An example of a service operation is Lombard Systems Service, with free-standing offices in San Francisco. Its function is to study, analyze, plan, install and supervise accounting systems and office procedures, to act as consultants to company operations on design, printing, and use of forms and to approve and arrange for the printing of standard forms.

Still another example is Hallmark Testing Service. This organization makes quality control tests on present and proposed Sponsored Brands, tests competitive products and makes the tests which are required in the development of such customer service material as canning guides and nutrition instructions.

## *Airborne Produce*

During 1945 your company continued its experiments with air shipment of fresh produce. The principal advantage of this means of transportation is its speed, which permits consumers at great distances from the producing sections to enjoy country fresh fruits, vegetables and berries.

## *Inventories*

Your company has experienced no abnormal losses from inventory declines even though changes in sales policies of food processors, merchandise shortages and wartime regulations have required it to maintain an inventory of many commodities in excess of that usually carried. A close control has been maintained over merchandise purchases and the inventory has at all times been maintained at the lowest point which the management felt was possible with safety to the continued operation of your company.

## *Building Program*

Government restrictions on building during 1945, coupled with excessive building costs, made it impossible for the management to reinstate its buy-build-sell-lease policy with respect to store and plant properties. The only new facilities constructed during 1945

were 8 store locations, which, in the opinion of the management, were the minimum required for the proper representation and operation of your company's business. Your company also acquired 15 new leased store locations in existing buildings. In order to permit the construction of new store locations and plant facilities under the buy-build-sell-lease program without delay when the removal of building restrictions and a leveling of construction costs justifies the reinstatement of such program, the company acquired 56 store sites during 1945. These store sites are being sold to investors and leased back under leases which give the purchasers the first opportunity to buy the improvements which will be constructed thereon by your company. During the year a total of 23 retail stores and 28 meat sections were opened, while 44 retail stores and 48 meat sections were closed. In accordance with company policy the expense of closing all stores vacated and the unamortized value of leasehold improvements on these stores were charged against current earnings. Leasehold improvements on continuing stores are being charged off on an amortized basis.

# Buying and Selling Fresh Produce

1. IN BUYING FRESH PRODUCE for its retail stores, Safeway operates through the Easwest Produce Company, one of its supplier divisions. Photo above shows Easwest representatives inspecting crop in the field. Company policy calls for purchasing produce direct from producers, their cooperatives, exchanges or associations, wherever possible. Other policies are that prevailing market prices be paid, and that no brokerage be accepted.

2. CHANNEL ICING, where required, is one of the means used to maintain maximum freshness in carloads of produce en route from packing shed to produce warehouse. A Safeway idea, method involves using cakes of ice down center of reefer in addition to top icing and standard refrigeration.

3. IN PRODUCE WAREHOUSES, carload and truckload quantities of produce move swiftly for transshipment to Safeway retail stores. Warehouses include humidity and temperature controlled rooms for such purposes as ripening bananas.

4. SAFEWAY TRUCKS rush the produce from warehouse to retail stores, on carefully planned schedules. By the end of 1945, your company was operating 23 principal produce warehouses in the United States and Canada.

5. IN SAFEWAY STORES, fresh produce is displayed for customers' inspection, convenience, and personal selection. Reserve stocks, for frequent replenishing of retail displays, are held in the store's back room. Safeway's policy of pricing produce by weight lets the customer buy to her exact requirements, insures full value.

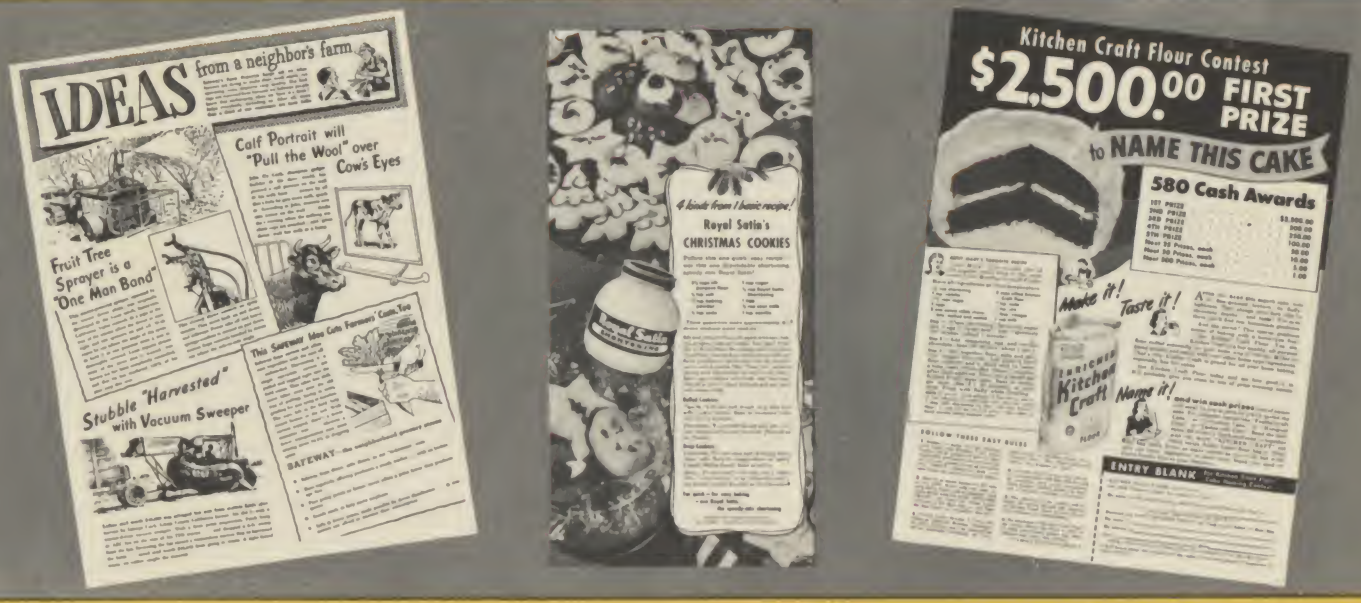
NEWSPAPER advertising is used by Safeway to announce merchandise prices (left), and to promote Sponsored Brands (right). The examples shown on these two pages are typical of your company's 1945 advertising campaigns.

## Safeway Advertising

*Safeway uses advertising consistently—to announce store prices, to promote Sponsored Brands, and to explain company policies. Because of their proved effectiveness, newspapers are used as the primary medium for advertising store prices whenever they provide coverage of the trading area. Safeway also uses other media, including consumer magazines, farm papers, radio, outdoor, and car cards. Selection of media is governed by the advertising needs of the particular campaign under consideration. In negotiating contracts with advertising media, it is Safeway policy to pay established rates for space and time.*

HOAGY CARMICHAEL, composer, pianist and actor, is shown above starring in "Something New," weekly half-hour musical show sponsored by Safeway's Table Products Company on NBC.

ADVERTISING in "The Family Circle" magazine, below (Royal Satin Shortening, center; Kitchen Craft Flour, right), is part of Safeway's promotion program for Sponsored Brands.




INSTITUTIONAL advertising copy directed to food producers (as in the example shown above), is sponsored by Safeway in a wide list of agricultural publications.

OUTDOOR advertising, where possible, is displayed near Safeway stores in order to gain maximum effectiveness; 24-sheet poster shown below is near a San Francisco store.

MIXING BOWLS shown here are churning up a batch of Nu-Made Mayonnaise in the Washington, D. C., plant of Table Products Company, a division of Safeway Stores, Incorporated.

COOKING ROOM of Empress Manufacturing Company, Limited (shown below) a Canadian Safeway subsidiary, can turn out 45,000 pounds of first-quality jam per day.

MILK GOES into the evaporator (below), at Hanford Milk Company's plant in California; it will be packed under Safeway's Cherub label. Hanford Milk is a Safeway division.

### *Facilities at the End of the Year*

As of December 31, 1945 your company had in operation 2442 retail stores in which were located 2382 meat sections. In addition to such retail stores and meat sections your company and its subsidiaries also operated 41 principal grocery warehouses, 23 principal produce warehouses, 19 bakeries, 7 fluid milk plants, 7 coffee roasting plants, 4 meat distribution warehouses, 11 meat slaughter plants, 4 dressings plants, 6 butter plants, a gelatin dessert plant, a cracker bakery, an evaporated milk plant, a candy factory, a jam and jelly plant, a fruit and vegetable cannery and a number of smaller plants and warehouses.

### *Opera Broadcasts*

As a part of its civic activities your company sponsored the radio broadcasting of operas presented by the San Francisco Opera Company during 1945. Fifteen operas were broadcast in September and October, over a network covering California, Oregon, Washington, Idaho and British Columbia.

## Personnel

### *Contingent Compensation*

Employees who occupied the position of Zone Manager, District Manager and Retail Location Manager during 1945 received remuneration for their services based on sales and gains as provided for under the compensation plan placed in effect January 1, 1942. Payment on this basis has been made without prejudice to the affiliations of these employees with labor unions.

### *Employees' Association*

Employees who are members of the Safeway Employees' Association are entitled to the benefits of a group insurance plan which includes disability and hospitalization protection, the cost of which is borne by the participating members and your company and its subsidiaries. The total group insurance in force now aggregates approximately $80,145,000.

### *Employees as Citizens*

The following examples, selected from many on record, show that Safeway employees continued during 1945 to take an active interest in civic affairs:

A store manager in Idaho became president of his community's Chamber of Commerce and county chairman of the War Fund.

A store manager in Texas was named president of his Lions Club.

A warehouse superintendent in Oklahoma received the Civic Service Award for his work in facilitating the unloading of freight cars.

A California personnel manager became president of his community's Exchange Club.

A supplier company branch manager in California was elected president of the regional Rotary Club.

A Missouri district manager was general chairman of a successful Y. M. C. A. membership drive.

A supervisor in Oklahoma was chairman of a record-breaking "Old Clothes for Europe" campaign.

# Selecting and Operating Store Locations

1. CONTINENTAL Properties Company, a Safeway division, maintains maps of every town and city of more than 5000 population, where your company operates. Maps show traffic arteries, shopping centers, present and projected Safeway store locations. Surveys point to best potential store locations.

2. SAFEWAY engineering and research men lay plans for new stores, aiming at maximum convenience for customers and employees. Important factors are fixture layouts, availability of shopping buggies, size of parking lot, etc. Local architects carry out these plans in accordance with local building standards. Safeway policy is to lease, rather than own, its store locations. So as to exercise complete control over design, plans, and construction, however, your company buys the land, constructs its own building, and then sells the land and building to an investor who is willing to give the company a long-term lease on the property. All negotiations for both purchase and sale of properties are carried on through real estate brokers.

3. LIGHTING in stores, among other factors, is under constant year-'round study by Safeway experts. Purpose here is to achieve a system of lighting which will give the stores cheerful illumination and provide maximum readability for merchandise on display.

4. NEW EMPLOYEES and returned veterans are paid regular wages while they learn the most efficient methods of store operation, in Safeway training schools. Training involves instruction in company policies as well as actual practice under store conditions.

5. NET RESULT of this system of selecting sites, constructing stores and staffing them: food stores with access to maximum neighborhood traffic, designed for maximum shopping and operating convenience, and operated by trained personnel.

# Prospects and Plans for 1946

## *General*

THE CONDITION of your company and of the food industry in general is such that the company should make further progress during 1946 and succeeding years unless retarded by general unrest, labor difficulties or other causes beyond the control of the management.

The company hopes that conditions will soon permit it to resume its store and plant improvement and development program. At the moment, however, the management feels that shortages of material, strikes and high construction costs make such a step unwise. It has been decided that only emergency construction work will be done until building costs are stabilized.

Your company continues to be seriously handicapped in some important respects by the continued existence of wartime regulations and the carry over into peacetime of governmental management of the economy.

Since the end of the war approximately 2,800 employees have returned to your company from the armed forces. The return of these experienced employees will relieve the severe personnel shortage experienced by your company during the war.

## *Canadian Reporting*

You were advised in the Annual Report for 1944 that your management was considering placing its Canadian interests on an investment basis and excluding these operations from its Consolidated Financial Statements. Due to the war and tax problems the management has been unable at this date to carry out this change. It hopes, however, that with the return of normal conditions in Canada, the Canadian interests of your company can be reorganized and placed in a position where they can finance their own operations through the sale of senior securities and through direct loans and so relieve the

United States operations of your company from their present obligation to finance the Canadian business. When this is done the results of the Canadian subsidiaries will be omitted from the consolidated financial statements in the Annual Reports.

## *Employee Training*

The planned expansion of your company's operations will call for an increased number of skilled employees. The long-range program will require thorough training of many experienced employees as well as all new employees. In 1945 the shortage of manpower and the rapid turnover of personnel made it necessary to reduce and concentrate our employee training programs.

Future employee-training plans envisage an extensive prework program, during which trainees will receive their regular compensation. Webster Training Service has been set up by your company to develop the detailed procedures for this program. On its staff are men who are specialists in training and personnel research, job analysis and instructor and supervisory training, as well as in location

manager, meat employee and plant, warehouse and office employee training.

In many localities the training programs will be coordinated with veteran training programs and will qualify for governmental approval. These programs will enable returning veterans to receive the benefits provided under the G. I. Bill of Rights. Such programs

will be of value to both new employees and returning veterans who feel the need of a refresher course before again taking up the work which they left to join the armed services.

### *Employee Retirement Plan*

The Annual Report for the year ended December 31, 1944 referred to the studies being made with respect to employee pension plans. Because of the extremely low profit margin on which your company operates, your management has not as yet found it possible to work

out a plan which will provide benefits that are adequate without imposing a liability for contributions in excess of the amount which it believes your company should assume. Consideration is still being given to various types of pension and profit sharing retirement plans, however, and it is hoped that it will be possible to work out a plan or plans for employees and executives which will be satisfactory.

### *Litigation*

No date has yet been fixed for the trial of the federal anti-trust suit against your company and a number of its subsidiaries, officers and employees, which was referred to in the Annual Reports for 1943 and 1944. The stockholders' representative actions referred to in the Annual Report for 1944 also have not been brought to trial at this date. The management is confident that a complete defense can be presented to all the charges in the indictment and that the trials in the stockholders' representative actions will prove that such actions are without foundation and that the company and its stockholders have benefited from all matters complained of therein.

The success of the company during the past year would not have been possible without the loyal cooperation of all employees. At this time I wish to express to them my appreciation for their help and to extend a welcome to those former employees who have returned from the armed forces.

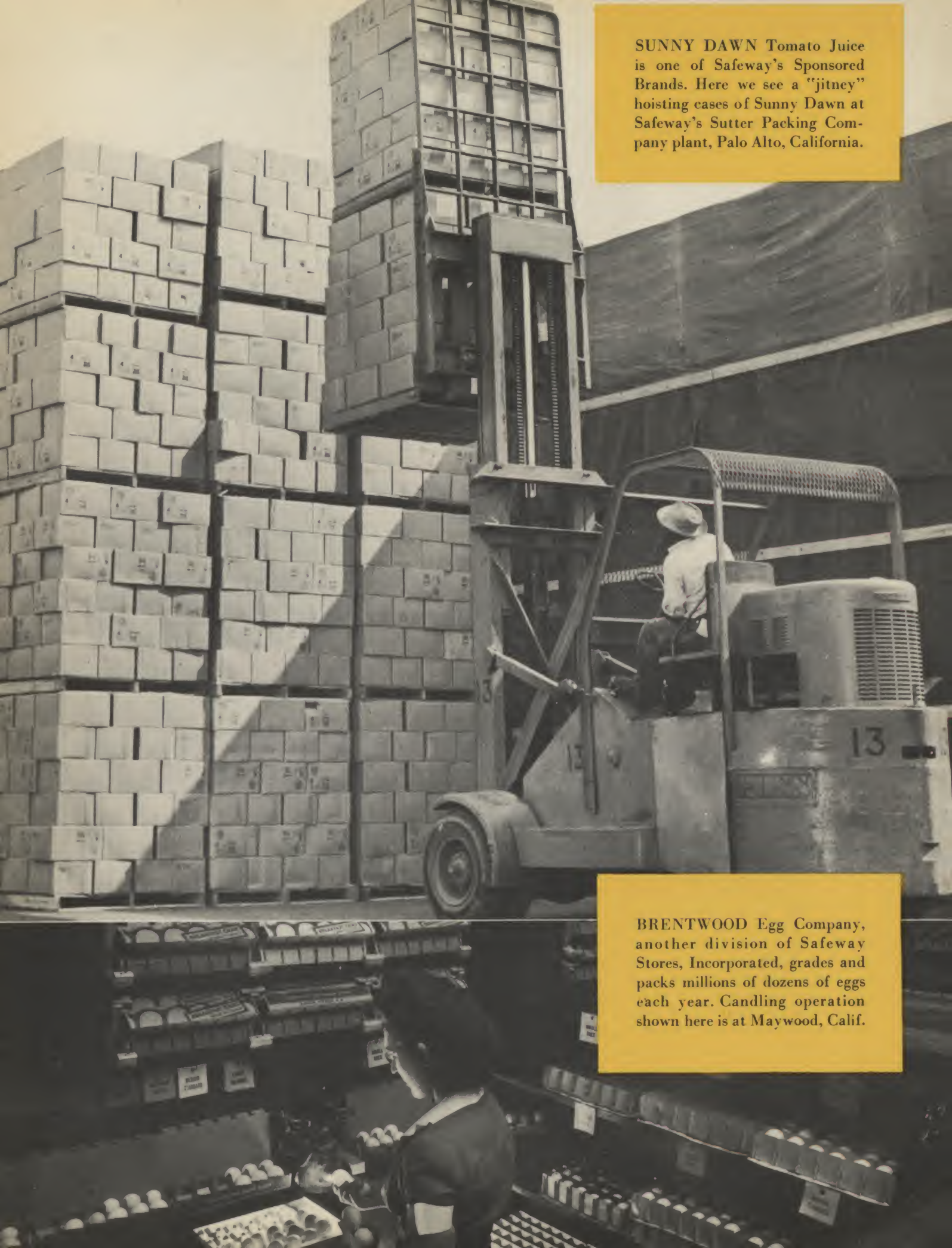
Lingan A. Warren

*President.*

**SPONSORED BRAND PACKAGES**

TYPICAL SAFEWAY Sponsored Brand packages of 1945 are shown on the opposite page. As a brand promoter, Safeway competes, product for product, with other brand promoters, for consumer patronage in such factors as quality, price and retail advertising and promotion. Safeway does not use its position as retailer to give its brands unfair preferred treatment over brands of competing brand promoters which are carried in its retail stores.

SU-PURB
PERFECT FOR EVERY HOUSEHOLD USE
SU-PURB
Granulated
SOAP
THE SOAP WITH THE HAND-LOTION INGREDIENT
WHITE MAGIC
ENRICHED
Kitchen Craft
FLOUR
SUZANNA
PANCAKE WAFFLE FLOUR
Pirates Gold
GRAHAM CRACKERS
BUSY BAKER CRACKERS
Royal Satin
SHORTENING
Mrs. Wright's
Enriched WHITE
SUNNY DAWN
SUGAR BELLE
SWEET PEAS
CHOICE
CASTLE CREST
HALVES PEACHES
Duchess
CHERUB
EVAPORATED MILK
NOB HILL
COFFEE
AIRWAY
Nu Made
MAYONNAISE
Dutch Mill
PASTEURIZED PROCESS CHEESE
AMERICAN
BEVERLY
PEANUT BUTTER
Canterbury
BLACK TEA
Canterbury
TEA
EDWARDS
COFFEE
REGULAR GRIND
Jiffy-Lou
CHOCOLATE PUDDING
MEADOW WOOD
BUTTER
MEADOW WOOD BUTTER
Jell-well
GELATIN DESSERT
ORANGE FLAVOR



SUNNY DAWN Tomato Juice is one of Safeway's Sponsored Brands. Here we see a "jitney" hoisting cases of Sunny Dawn at Safeway's Sutter Packing Company plant, Palo Alto, California.

BRENTWOOD Egg Company, another division of Safeway Stores, Incorporated, grades and packs millions of dozens of eggs each year. Candling operation shown here is at Maywood, Calif.

# FINANCIAL STATEMENTS

PEAT, MARWICK, MITCHELL & CO.

ACCOUNTANTS AND AUDITORS

## ACCOUNTANTS' REPORT

To the Board of Directors,

Safeway Stores, Incorporated:

We have examined the Consolidated Balance Sheet of Safeway Stores, Incorporated and Subsidiary Companies as of December 31, 1945, and the Statements of Consolidated Profit and Loss and Surplus for the year then ended, have reviewed the system of internal control and the accounting procedures of the Companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the Companies and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

In our opinion, the accompanying Consolidated Balance Sheet and related Statements of Consolidated Profit and Loss and Surplus present fairly the position of Safeway Stores, Incorporated, and Subsidiary Companies at December 31, 1945, and the results of their operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PEAT, MARWICK, MITCHELL & CO.

San Francisco, California
March 12, 1946

## SAFEWAY STORES, INCORPORATED AND SUBSIDIARIES

### CONSOLIDATED BALANCE SHEET

### ASSETS

| | | |
|---|---|---|
| **CURRENT ASSETS:** | | |
| Cash in Banks and on Hand | | $ 19,649,141.60 |
| Dominion of Canada Bonds—at Cost | | 2,375,572.50 |
| Accounts Receivable—Trade, less Reserve $69,721.13 | | 1,176,436.18 |
| Government Accounts Receivable | | 1,647,008.76 |
| Sundry Accounts Receivable | | 574,318.93 |
| Advances on Purchases of Livestock | | 256,164.50 |
| Inventories (Note 2) | | 65,852,130.56 |
| Total Current Assets | | 91,530,773.03 |
| **PREPAID EXPENSES:** | | |
| Taxes, Licenses and Rents | $ 440,260.74 | |
| Insurance | 390,032.25 | |
| Supplies and Miscellaneous | 597,320.13 | 1,427,613.12 |
| **CLAIM FOR REFUND OF EXCESS PROFITS TAX** | | 462,651.71 |
| **POST WAR REFUNDS OF CANADIAN EXCESS PROFITS TAX** | | 160,212.78 |
| **INVESTMENTS AND ADVANCES:** | | |
| Investment in Wholly Owned Subsidiary not consolidated (Note 3) | 15,893,926.09 | |
| Security Investments—at Cost, less Reserve $26,195.62 | 130,506.27 | |
| Other Investments and Advances | 35,011.36 | 16,059,443.72 |
| **FIXED ASSETS—AT COST, LESS DEPRECIATION:** | | |
| Land | 2,342,772.65 | |
| Buildings | 4,692,422.06 | |
| Leasehold Improvements | 1,376,354.18 | |
| Store, Warehouse and Plant Fixtures and Equipment | 2,129,266.78 | |
| Automotive Equipment | 80,963.35 | |
| | 10,621,779.02 | |
| Less Reserve for Depreciation | 3,126,304.57 | 7,495,474.45 |
| **DEBT DISCOUNT, REDEMPTION PREMIUMS AND EXPENSES:** | | |
| Balance Unamortized (Note 4) | | 155,188.21 |
| Total | | $117,291,357.02 |

### NOTES TO FINANCIAL STATEMENTS

Note 1.—PRINCIPLES OF CONSOLIDATION. The Current and Working Assets and Current Liabilities of the Subsidiaries in Canada are included in the financial statements at the official selling rate of exchange at December 31, 1945. Fixed Assets and Depreciation are included at rates of exchange prevailing when such assets were acquired or constructed and Operations are included at the rates of exchange current throughout the year. On the foregoing basis, the net equity in these Subsidiaries at December 31, 1945, amounted to $11,045,921.43; their Undistributed Profits since acquisition included in the Earned Surplus amounted to $2,485,931.37. The Net Income of these Subsidiaries for 1945 amounted to $378,624.39.

Note 2.—INVENTORIES. The inventories, which include raw materials and manufacturing supplies, were valued at the lower of cost or market, cost being determined on the first-in, first-out basis and market on the basis of replacement market.

Note 3.—INVESTMENT IN SUBSIDIARY NOT CONSOLIDATED. As of December 31, 1945, the parent company and its domestic subsidiaries transferred to Cortland Equipment Lessors, Incorporated (a wholly owned subsidiary) all of their Store, Warehouse and Plant Fixtures and Automotive and other Equipment at cost of $37,024,813.42 less reserve for depreciation applicable thereto of $21,308,288.65 as shown by their books. These assets have been leased from this subsidiary by the parent company commencing January 1, 1946. The Balance Sheet of this subsidiary at December 31, 1945, with the Accountants' report thereon, is submitted separately.

Note 4.—DEBT DISCOUNT, REDEMPTION PREMIUMS AND EXPENSES. As the premium on retirement, together with the unamortized balance of expense of the former issue of 3¼% Debentures retired during the year, are deductible for income tax purposes, the provision necessary for Federal taxes on income for 1945 is reduced by $586,134.79. An equivalent amount has been credited to these Deferred Charges. The balances of these charges, consisting of debt discount, premiums and expenses, are being amortized over the lives of the refunding issues.

## SAFEWAY STORES, INCORPORATED AND SUBSIDIARIES

### AS OF DECEMBER 31, 1945

### LIABILITIES

| | | |
|---|---|---|
| CURRENT LIABILITIES: | | |
| Notes Payable to Banks | | $ 11,900,000.00 |
| Accounts Payable | | 15,335,010.23 |
| Accrued Expenses | | 4,725,113.30 |
| Due to Subsidiary, not consolidated | | 68,360.03 |
| Dividend Payable | | 255,966.25 |
| Provision for Federal and Canadian Taxes on Income | $ 4,274,222.38 | |
| Less U. S. Treasury Notes, Series "C" | 2,872,000.00 | 1,402,222.38 |
| Total Current Liabilities | | 33,686,672.19 |
| NOTES PAYABLE TO BANKS, 2¼%, Due $1,000,000 Annually December 31, 1951 to 1954 and $16,000,000 December 31, 1955 | | 20,000,000.00 |
| CAPITAL AND SURPLUS: | | |
| 5% Preferred Cumulative Stock, Par Value $100.00 per share (Note 5) | | |
| Authorized and Outstanding, 204,773 shares | 20,477,300.00 | |
| Preferred Stock, Unclassified as to Series, Par Value $100.00 per share | | |
| Authorized and Unissued, 290,775 shares | | |
| Common Stock, Par Value $5.00 per share. | | |
| Authorized, 4,500,000 Shares | | |
| Outstanding, 2,540,648.72 Shares (Note 6) | 12,703,243.60 | |
| Paid-in Surplus | 9,774,341.79 | |
| Earned Surplus (Note 7) | 20,649,799.44 | 63,604,684.83 |
| CONTINGENT LIABILITIES (Note 8) | | |
| Total | | $117,291,357.02 |

### NOTES TO FINANCIAL STATEMENTS

Note 5.—PREFERRED CUMULATIVE STOCK. The Preferred Cumulative Stock is redeemable on call and on voluntary or involuntary liquidation at a premium of $10.00 per share over par value, an aggregate premium of $2,047,730.00 on Preferred Stock outstanding.

Note 6.—COMMON STOCK. The outstanding Common Stock is stated after deducting 45,303.28 shares in treasury, of which 30,000 shares are reserved to cover non-assignable options to the President of the Company, exercisable until January 15, 1947, at $13.33 per share.

Note 7.—RESTRICTIONS. Under the terms of the 2¼% Note Issue now outstanding, dividends on Preferred and Common Stocks cannot be paid (1) if such payment on Preferred Stock would reduce the Consolidated Net Current Assets of the Company and its domestic subsidiaries below $37,000,000 or on Common Stock below $40,000,000 or below two times the consolidated funded indebtedness of the Company and its domestic subsidiaries whichever is less nor (2) if the total dividends paid plus amounts for the purchase or redemption of stock, since December 31, 1944 exceed (a) the net cash received from the sale of stock since December 31, 1944 (b) the Consolidated Net Income of the Company and its domestic subsidiaries since December 31, 1944 and (c) the sum of $4,500,000 of which $1,500,000 may be allocated to Common Stock. On the foregoing basis, the amount of the restriction of Earned Surplus at December 31, 1945 was $13,002,339 in respect of payments on Preferred Stock and $16,002,339 in respect of payments on Common.

Note 8.—CONTINGENT LIABILITIES. The Company is contingently liable for $374,261.50 in respect of guarantees of mortgages on store buildings erected and sold and chattel mortgages of suppliers. Income tax returns for 1942 and subsequent years are subject to final review. The Company is defendant in certain actions arising out of alleged breach of Anti-trust laws which have not yet come to trial. Lawsuits incidental to the Companies' operations are reasonably covered by insurance.

## SAFEWAY STORES, INCORPORATED AND SUBSIDIARIES

### STATEMENT OF CONSOLIDATED PROFIT AND LOSS FOR THE YEAR ENDED DECEMBER 31, 1945

| | | |
|---|---|---|
| SALES (Net) | | $664,771,549.03 |
| COST OF SALES | | 537,655,863.79 |
| Gross Profit | | 127,115,685.24 |
| OPERATING AND ADMINISTRATION EXPENSES | $113,367,166.48 | |
| PROVISION FOR DEPRECIATION | 4,063,617.36 | 117,430,783.84 |
| Net Operating Profit | | 9,684,901.40 |
| OTHER INCOME | | 244,171.06 |
| | | 9,929,072.46 |
| OTHER CHARGES: | | |
| Debt Interest, Discount and Expense | 621,768.66 | |
| Bank and Other Interest | 185,250.68 | |
| Loss on Property, Plant and Equipment | 96,849.43 | |
| Other Income Deductions | 20,239.67 | 924,108.44 |
| | | 9,004,964.02 |
| PORTION of Unamortized Expense and Premium on Redemption of Debentures Refunded in 1945 equal to resultant reduction in Federal Taxes on Income (Note 4) | | 586,134.79 |
| | | 8,418,829.23 |
| PROVISION FOR TAXES ON INCOME: (Note 4) | | |
| Federal Normal and Surtax | 2,847,432.33 | |
| Other Income Taxes (Less Post-War Refunds of $117,672.74) | 951,534.42 | |
| | 3,798,966.75 | |
| Less Refund of Excess Profits Tax under "Carry-back" Provision | 462,651.71 | 3,336,315.04 |
| Net Profit (Note 1) | | $ 5,082,514.19 |

### STATEMENTS OF SURPLUS FOR THE YEAR ENDED DECEMBER 31, 1945

#### EARNED SURPLUS

| | | |
|---|---|---|
| AMOUNT AT DECEMBER 31, 1944 | | $19,147,552.04 |
| Add Net Profit for the Year Ended December 31, 1945 | | 5,082,514.19 |
| | | 24,230,066.23 |
| Deduct Cash Dividends: | | |
| Preferred Stock—$5.00 per Share | $1,039,615.00 | |
| Common Stock: | | |
| No Par—1st Quarter at 75 Cents per Share | 635,163.42 | |
| $5.00 Par—2nd, 3rd and 4th Quarters at 25 Cents per Share per Quarter | 1,905,488.37 | 3,580,266.79 |
| AMOUNT AT DECEMBER 31, 1945 (Note 7) | | $20,649,799.44 |

#### PAID-IN SURPLUS

| | | |
|---|---|---|
| AMOUNT AT DECEMBER 31, 1944 | | $12,666,944.17 |
| Deduct: | | |
| Amount transferred to Stated Value of Common Stock to record the shares issued, including those in Treasury, at their par value, on the splitup in April 1945, of each share of Common Stock without par value into three shares of the par value of $5.00 each | $2,849,335.75 | |
| Premium on 5% Preferred Stock retired | 43,266.63 | 2,892,602.38 |
| AMOUNT AT DECEMBER 31, 1945 | | $ 9,774,341.79 |

# CORTLAND EQUIPMENT LESSORS, INCORPORATED

## FINANCIAL STATEMENT

As of December 31, 1945

PEAT, MARWICK, MITCHELL & CO.

ACCOUNTANTS AND AUDITORS

# ACCOUNTANTS' REPORT

To the Board of Directors,

Safeway Stores, Incorporated:

We have examined the Balance Sheet of Cortland Equipment Lessors, Incorporated, a wholly owned subsidiary of Safeway Stores, Incorporated, as of December 31, 1945 (date of its organization), have reviewed the accounting procedures of the Company and, without making a detailed audit of the transactions, have examined or tested accounting records of the Company and other supporting evidence relating to the assets and liabilities as of that date, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

In our opinion, the accompanying Balance Sheet presents fairly the position of Cortland Equipment Lessors, Incorporated at December 31, 1945, in conformity with generally accepted accounting principles.

PEAT, MARWICK, MITCHELL & CO.

San Francisco, California
March 12, 1946.

## CORTLAND EQUIPMENT LESSORS, INCORPORATED

### BALANCE SHEET AS OF DECEMBER 31, 1945

#### ASSETS

| | | |
|---|---|---|
| CASH IN BANK | | $ 109,041.29 |
| ACCOUNTS RECEIVABLE FROM AFFILIATES | | 68,360.03 |
| FIXED ASSETS, LESS DEPRECIATION (Note): | | |
| Store, Warehouse and Plant Fixtures and Equipment | $31,666,809.90 | |
| Automotive Equipment | 5,358,003.52 | |
| | 37,024,813.42 | |
| Less Reserve for Depreciation | 21,308,288.65 | 15,716,524.77 |
| Total | | $15,893,926.09 |

#### LIABILITIES

| | | |
|---|---|---|
| CAPITAL AND SURPLUS: | | |
| Common Stock—Authorized and Outstanding—300,000 shares par value $1.00 per share | | $300,000.00 |
| Paid-in Surplus: | | |
| Excess of proceeds of sale to parent company of 300,000 shares of common stock over par value thereof | $ 1,500,000.00 | |
| Store, warehouse and plant fixtures and automotive and other equipment donated by parent company | 14,093,926.09 | 15,593,926.09 |
| Total | | $15,893,926.09 |

NOTE.—As of December 31, 1945 Safeway Stores, Incorporated, the parent company, and its domestic subsidiaries transferred to the Company all of their Store, Warehouse and Plant Fixtures and Automotive and other Equipment at the net depreciated value as shown by their books at that date. These assets have been leased to Safeway Stores, Incorporated commencing January 1, 1946.

PRINTED IN U.S.A. 115

# SAFEWAY STORES, INCORPORATED

A MARYLAND CORPORATION

As at December 31, 1945

*Executive Officers*

| | |
|---|---|
| LINGAN A. WARREN | President and Treasurer |
| C. N. SANDERS | Vice President |
| A. D. KIRKLAND | Vice President |
| ARTHUR STEWART | Controller |
| MILTON L. SELBY | Secretary |

*Directors*

LINGAN A. WARREN · ARTHUR STEWART · C. N. SANDERS
MILTON L. SELBY · A. D. KIRKLAND

*Executive Offices*

4th and Jackson Streets, Oakland, California

*Transfer Agents*

The Chase National Bank of the City of New York
New York, N. Y.

The Crocker First National Bank of San Francisco
San Francisco, Calif.

*Registrars*

City Bank Farmers Trust Company
New York, N. Y.

Bank of California, National Association
San Francisco, Calif.

*Auditors*

Peat, Marwick, Mitchell & Co.

LITHO IN U. S. A.